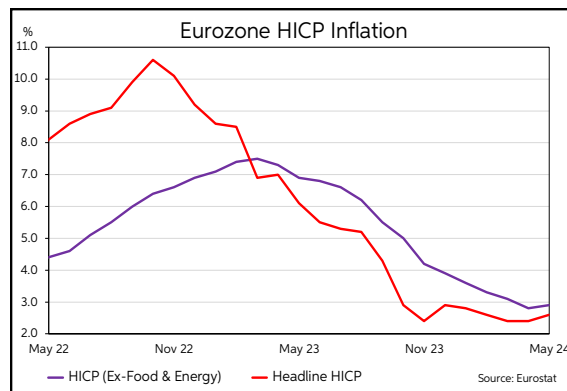


## Pivotal political week ahead in Europe

- **As we move into the second half of 2024, the market's lens has shifted from central banks to politics for now, with two pivotal elections taking place in the UK and France next week.** While polls suggest the UK election will yield a resounding victory for Labour, the outcome of the French election is uncertain, with Macron's party trailing both Left and Right blocks in the polls. Thus, next week's political events could bring increased volatility on European markets, as investors digest the 1st round results in France. In the run-up to the poll, the French 10-year spread to the German bund has widened further to 84bps, the highest level since 2012.
- **Nonetheless, the 1st round results on Sunday night should give a clearer picture of how the three blocks vying for power are performing.** According to latest polls, Marine le Pen's National Rally party is set to gain the most seats, but tactical voting may come into play in the run-off election on July 7th, as has been the case in previous elections. With the polls pointing to a hung parliament, the French political system could be set for a period of deadlock and instability, with neither block able to elect a Prime Minister. In this scenario, Macron may be able to form a Government with elements of the centre-right and left, but this could come at the cost of unwinding of some of his signature policies, including the recent pension age reform. Macro could even resign to break the deadlock and initiate fresh elections.
- **Whatever the outcome, the next Government's hands will be tied on fiscal policy.** Alongside six other countries, France has now entered an excessive deficit procedure (EDP) with the EU Commission, which will require the Government to present a 4-year plan to bring its deficit down. At 5.5% of GDP in 2023 and forecast to decline only marginally in the coming years, the budget deficit is among the highest in the EU, while public debt is now above 110% of GDP. Analysis of election manifestos suggests the economic plans both Left and Right would expand this deficit further, but markets would likely curtail excessive deficit spending. The Liz Truss 'Mini Budget' highlights the limits of investor appetite to fund deficits underpinned by incoherent fiscal policy.
- **Amidst the political noise, this week has also been marked by relatively dovish commentary from ECB members, including Bank of France President Villeroy stating the "disinflation process is on track" despite a "bumpy" inflation profile.** Elsewhere, the Bank of Japan is coming under increasing pressure to hike rates further, as the Yen broke through a 38-year low against the dollar this week, well beyond the levels which spurred a currency intervention by the Japanese Government in April.
- **From a data perspective, the main Eurozone release of note will be flash HICP inflation for June.** The downward trend in the headline rate during the spring, reversed course in May. After printing at 2.4% in March and April, the lowest levels since July 2021, headline HICP rose to 2.6% in May. At the same time, core inflation, which had also been on a clear decelerating path, edged higher. The ex-food and energy rate increased to 2.8% in May, from 2.7%, while the core rate that excludes energy, food, alcohol and tobacco, rose to 2.9% from 2.8%. Furthermore, services inflation remains elevated and has been quite sticky. It rebounded to 4.1% in May from 3.7%. However, a key driver of the rebound in inflationary pressures in May was the impact of subsidised public transport costs in Germany last year washing through the index. The ECB has warned that the road ahead for inflation will likely be 'bumpy'. The consensus forecast is for the headline rate to edge lower to 2.5% in June, while the ex-food & energy rate is projected to ease to slightly, to 2.8%.
- **In the US, the highlight of a holiday shortened week will be the labour market report.** Conditions in the jobs market remain tight, albeit there have been signs of softening this year. Payrolls have expanded by an average of 248k per month in the first five months of 2024, just below the +251k per month in 2023. Meantime, the unemployment rate rose to 4% in May, its highest level since January 2022. Amid, the slight softening in the labour market, average earnings growth slowed from +4.4% y/y to +4.1% y/y in May. In June, payrolls growth is expected to slow to 190,000. The unemployment rate is anticipated to remain at 4%, while average earnings growth is projected to slow to +3.9% y/y. Elsewhere in the US, the manufacturing and non-manufacturing ISMs for June will be released.
- **On the monetary policy front, both the ECB and the US Federal Reserve will release the meeting minutes from their June policy gatherings.** The minutes will garner some attention as investors look for guidance on the future path of interest rates. The ECB will also host its annual Forum on Central Banking in Sintra, Portugal this week, which will contain a number of discussions with prominent economists from the central banks and academia, as well as ECB President Lagarde and Fed Chair Powell.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2024	2024	2025
Fed Funds	5.375	5.125	4.875	4.625
ECB Deposit	3.75	3.50	3.25	3.00
BoE Repo	5.25	5.00	4.75	4.50
BoJ OCR	0.10	0.25	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q3	End Q4	End Q1
		2024	2024	2025
EUR/USD	1.0707	1.10	1.11	1.12
EUR/GBP	0.8462	0.87	0.87	0.88
EUR/JPY	171.83	171	170	168
GBP/USD	1.2650	1.26	1.28	1.28
USD/JPY	160.47	155	153	151

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	<b>Lagarde</b> (Mon); <b>Lagarde</b> , de Guindos, Schnabel (Tue); de Guindos, Cipollone, Lane, <b>Lagarde</b> (Wed)		
	<b>BoE Speakers:</b>			
	<b>Fed Speakers:</b>	Williams (Mon); <b>Powell</b> (Tue); Williams (Wed);		
		<b>UK General Election (4th July)</b>		
		<b>French Parliamentary Election -Second Round (7th July)</b>		
<b>Mon 1st</b>	<b>IRL:</b>	<b>01:01</b>	<b>AIB Manufacturing PMI (June)</b>	<b>49.6</b>
	<b>EU-20:</b>	09:00	Final HCOB Manufacturing PMI (June)	45.6
	<b>UK:</b>	09:30	Final S&P Manufacturing PMI (June)	51.4
	<b>GER:</b>	13:00	Flash HICP Inflation (June)	+0.2% (+2.8%)
	<b>US:</b>	14:45	Final S&P Manufacturing PMI (June)	51.7
	<b>US:</b>	15:00	Manufacturing ISM (June)	48.7
<b>Tue 2nd</b>	<b>ITA:</b>	09:00	Unemployment Rate (May)	6.9%
	<b>EU-20:</b>	10:00	Flash HICP Inflation (June)	(+2.6%)
			- Ex-Food & Energy	(+2.9%)
			- Ex-Food, Energy, Alcohol & Tobacco	(+2.9%)
	<b>US:</b>	15:00	JOLTS Job Openings (May)	8.059m
<b>Wed 3rd</b>	<b>IRL:</b>	<b>01:01</b>	<b>AIB Services PMI (June)</b>	<b>55.0</b>
	<b>ITA:</b>	08:45	HCOB Composite PMI (June)	52.3
	<b>FRA:</b>	08:50	Final HCOB Composite PMI (June)	48.2
	<b>GER:</b>	08:55	Final HCOB composite PMI (June)	50.6
	<b>EU-20:</b>	09:00	Final HCOB Composite PMI (June)	50.8
			- Final HCOB Services PMI (June)	52.6
	<b>UK:</b>	09:30	Final HCOB Composite PMI (June)	51.7
			- Final HCOB Services PMI (June)	51.2
	<b>EU-20:</b>	10:00	Producer Prices Inflation (May)	-1.0% (-5.7%)
	<b>IRL:</b>	<b>11:00</b>	<b>Unemployment Rate (June)</b>	<b>4.0%</b>
	<b>US:</b>	13:15	ADP Employment (June)	+152,000
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 24th June)	+233,000
	<b>US:</b>	14:45	Final S&P Composite PMI (June)	54.6
			- Final S&P Services PMI (June)	55.1
	<b>US:</b>	15:00	Non-Manufacturing ISM (June)	53.8
	<b>IRL:</b>	<b>16:30</b>	<b>Exchequer Returns (June)</b>	<b>June'23: +€0.3bn</b>
	<b>US:</b>	19:00	Fed FOMC Meeting Minutes (11-12th June)	
<b>Thu 4th</b>	<b>US:</b>		<b>Independence Day (Public Holiday)</b>	
	<b>GER:</b>	07:00	Industrial Orders (May)	-0.2%
	<b>EU-20:</b>	10:00	Monetary Policy Meeting Account (6th June)	+0.6%
<b>Fri 5th</b>	<b>GER:</b>	07:00	Industrial Output (May)	-0.1% (-3.9%)
	<b>FRA:</b>	07:45	Industrial Output (May)	+0.5%
	<b>EU-20:</b>	10:00	Retail Sales (May)	-0.5% (+0.0%)
	<b>US:</b>	13:30	Non-Farm Payrolls (June)	+272,000
			- Unemployment Rate	4.0%
			- Average Earnings	+0.4% (+4.1%)

♦ Month-on-month changes (year-on-year shown in brackets)

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